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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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Arizona Corporation Commission

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IN THE MATTER OF THE REVIEW AND
 POSSIBLE REVISION OF ARIZONA UNIVERSAL
 SERVICE FUND RULES, ARTICLE 12 OF THE
 ARIZONA ADMINISTRATIVE CODE.

Docket No. RT-00000H-97-0137

IN THE MATTER OF THE INVESTIGATION OF
 THE COST OF TELECOMMUNICATIONS
 ACCESS.

Docket No. T-00000D-00-0672

REPLY COMMENTS OF AT&T

Pursuant to the Procedural Order entered in these dockets dated November 28, 2007,
 AT&T Communications of the Mountain States, Inc. and TCG Phoenix (collectively referred to
 as "AT&T") file these reply comments on access charge reform and possible revisions to the
 Arizona Universal Service Fund ("AUSF") Rules.

INTRODUCTION

A variety of parties, including Qwest, rural incumbents, competing local exchange
 carriers, interexchange carriers and the Residential Utility Consumers Office ("RUCO"), filed
 opening comments covering a wide range of issues on access charge reform and the AUSF.
 Those comments indicate several important areas of consensus. First, with respect to the need
 for access charge reform, there is nearly universal agreement that the present intrastate switched
 access charges are too high. And, with respect to the manner in which access charges should be
 reformed, no one disputes that the costs of *intrastate* switched access services are the same as the
 costs of the corresponding *interstate* switched access services. Thus, reducing intrastate

1 switched access charges to mirror the rates and structure for their interstate counterparts (as
2 AT&T and several other parties suggest) represents an indisputably reasonable step towards
3 access charge reform. The Commission should accordingly institute proceedings to more fully
4 develop a record and reach a decision on this and other proposed reforms.

5 Turning to the AUSF, several parties agree that explicit AUSF subsidies should be used
6 to compensate local exchange carriers for at least part of the loss of implicit subsidies that would
7 result from access charge reform. Qwest presents a reasonable middle ground, under which
8 incumbent local exchange carriers would be allowed to increase retail local exchange rates up to
9 an affordable "benchmark" level set by the Commission, with AUSF support limited to
10 compensating those carriers for losses not already recovered through the increase in retail rates.
11 The specific definitions and details for implementing revisions to the AUSF should be the
12 subject of further comments and/or proceedings.

13 Given the level of agreement demonstrated by the comments, AT&T suggests that the
14 Commission give the parties 90 days to refine and discuss their positions with others, in an effort
15 to reach further consensus. First, the parties should be given 60 days to discuss procedural and
16 substantive issues concerning both the AUSF and access charge issues. Following that initial
17 60-day period, AT&T recommends that the Commission schedule two workshops for the April
18 2008 time frame. The Commission could then set a Procedural Conference for early May, so
19 that Staff and the parties can outline the results of the discussion and workshop process and
20 present their recommendations to the Administrative Law Judge on how best to proceed.

1 DISCUSSION

2 I. Access Charge Reform Questions

3 Nearly all parties—including incumbent LECs that currently receive revenues from
4 intrastate switched access charges—agree that those charges are presently too high and contain
5 substantial implicit subsidies. “ALECA recommends that the Commission permit its member
6 companies to bring their state switched access rates into equality with their interstate rates.”
7 ALECA Comments, at 1. Qwest also “supports access reform,” and maintains that “[r]ate
8 restructuring will enhance the long-term health of the industry.” Qwest Comments, Ex. B, at 1
9 (Question 1). Likewise, Time Warner states (at 1, 2) that “switched access rates in Arizona are
10 still priced far above cost” and urges that “[t]he Commission should move quickly to . . . reform
11 the access subsidy system.” Verizon observes that “many carriers’ intrastate access charges are
12 substantially higher than those of Qwest” and accordingly “agrees that access reductions would
13 be appropriate in Arizona.” Verizon Comments, at 3-4, 5. RUCO states (at 1) that “it would be
14 reasonable for the Commission to investigate opportunities to reduce access charges.”

15 It would be virtually impossible to dispute the need for intrastate switched access charge
16 reform given two undisputed facts. No one argues with the premise that the *rates charged* for
17 intrastate switched access are much higher than corresponding interstate rates. And no one
18 disputes that the *costs* of intrastate switched access are the same as the corresponding *interstate*
19 costs: a point that the Commission specifically asked the parties to address in their comments.
20 Given these facts, it is self-evident that (i) the rates for intrastate switched access should be
21 reduced and (ii) reducing those rates to the level and structure of the corresponding interstate
22 charges would be a reasonable step towards intrastate switched access charge reform. AT&T,
23 ALECA and Time Warner advocate this approach.

1 Access rate reform would not require the Commission to perform cost studies the way
2 Integra suggests (at 4-5, 8). The amount of implicit subsidy in Arizona access rates is massive;
3 or, as ALECA puts it (at 3), “[w]hether or not classified as subsidies, there is little question that
4 the contribution from switched access charges defrays a large portion of the costs ALECA’s
5 member companies incur supplying basic local exchange service in rural Arizona.” The
6 Commission need not calculate and eliminate every last penny of that contribution. Rather, the
7 Commission should take a measured step to reduce the amount of the contribution by reducing
8 intrastate switched access rates to the level and structure of federal rates and then allow carriers
9 to recover the reduction through restructuring of local exchange rates and, in some cases, through
10 explicit subsidies from the AUSF. Thus, ALECA correctly “believes it is not only unnecessary
11 but also counterproductive to attempt to quantify implicit subsidies.” ALECA Comments, at 6.
12 Verizon similarly recommends (at 4) that the Commission “need not (and should not) engage in
13 the time-consuming, anachronistic process of trying to evaluate each carrier’s ‘cost’ of providing
14 access service” and Time Warner agrees (at 5) that “[t]he Commission would not need to
15 undertake a comprehensive rate proceeding.”

16 Only one party, Integra, objects to access charge reform, and it only objects to such
17 reform “at least as applied to competitive local exchange carriers (CLECs).” Integra Comments,
18 at 3. As AT&T showed in its opening comments, however, there is ample reason to reform
19 CLEC access charges as well as ILEC access charges. The only question is whether to reform
20 CLEC rates now, along with ILEC rates, or open a second proceeding. In no case should CLEC
21 access charge reform be delayed indefinitely.

22 The access reforms developed in this proceeding also should apply to Qwest, though
23 perhaps on a slightly different timetable than they apply to other parties. Qwest believes that

1 lowering switched access rates promotes efficient competition in the long distance market and
2 reduces arbitrage opportunities. Qwest Comments, Ex. B, p. 1. Qwest, moreover, already
3 envisions that such reforms should apply to it as well as others: "For example, Qwest may be
4 able to reduce switched access rates to FCC levels, and do so by increasing other service rates or
5 establishing one flat rate charge." Qwest Comments, Ex. B, p. 2. It would be administratively
6 inefficient not to apply the reforms adopted here to Qwest.

7 AT&T understands that Qwest's implementation of such reforms may have to be delayed
8 somewhat because Qwest now is operating under a price regulation plan that will not expire until
9 March 2009. A necessary delay in implementation, however, does not mean that the
10 Commission cannot develop an access charge policy in this phase of the proceeding that is
11 applicable to Qwest upon the expiration of its current price regulation plan. The Commission
12 can and should include a finding in its decision in this proceeding that the access reforms
13 adopted apply to Qwest upon the expiration of Qwest's current price regulation plan.

14 **II. Universal Service Issues**

15 Generally, the commenting parties agree that any reductions to intrastate switched access
16 charges as a result of the above-described reforms should be revenue neutral: that is, that the
17 affected carriers should be allowed an opportunity to make up the loss of revenues through
18 increases in rates for other services, through explicit subsidies from the AUSF or through some
19 combination of the two. The comments differ mainly in the recommended allocation between
20 rate increases and AUSF subsidies. At one end of the spectrum, Verizon argues (at 7) that "[t]he
21 Commission should not use AUSF funds to make up revenues lost from access charge reform"
22 and recommends (at 5) that the Commission instead allow affected LECs to "propose retail tariff
23 changes to offset these lost revenues." At the other end, "ALECA recommends the Commission
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1 permit its members to recover from the AUSF the full amount of foregone intrastate access
2 revenue produced by access reform.” ALECA Comments, at 4. RUCO supports “the general
3 concept of phasing down the [Carrier Common Line charge] and expanding the role of the
4 AUSF” but does not recommend a dollar-for-dollar offset; similarly, RUCO appears to
5 acknowledge some need for increases in other rates “without necessarily increasing [those] rates
6 on a dollar-for-dollar basis.” RUCO Comments, at 6.

7 Qwest’s comments propose a middle ground that serves as a reasonable starting point.
8 Qwest recommends (Ex. A, at 5-6) that the Commission determine a retail rate affordability
9 benchmark and allow LECs to (i) recover access revenue reductions through increases to local
10 exchange rates up to the benchmark and (ii) recover any remaining access rate reductions from
11 the AUSF. The Commission should consider using this balanced approach as a baseline for
12 further discussion to determine the details of AUSF revisions. At the same time, the parties can
13 discuss and possibly agree upon the details of AUSF procedures.

14 Two specific issues warrant special mention here. First, AUSF support should be limited
15 to carriers meeting a specific set of criteria, including a requirement that the carrier accept the
16 obligation to serve as a “carrier of last resort” (“COLR”): that is, the requirement to be ready
17 and able to provide a specified level of basic service to all customers in its designated area. The
18 COLR undertakes the core function of providing truly universal service; other providers simply
19 serve the customers they deem to be profitable. Giving other carriers the same support that
20 COLRs receive—without requiring them to undertake the same obligation to be ready to serve
21 all customers—is not “competitively neutral.” To the contrary, it unfairly disadvantages the
22 COLR, a result fundamentally at odds with promoting universal service and with the critical role
23 that the COLR plays in achieving and maintaining universal service.

1 The second issue relates to possible changes to the methodology for assessing AUSF
2 contributions. As AT&T explained in its opening comments, the existing AUSF contribution
3 methodology may impose disproportionate burdens on some service providers. Currently, the
4 AUSF rules specify that one-half of AUSF funding is to be borne by "Category 1" providers
5 (largely local exchange carriers and wireless carriers) on the basis of access lines and
6 interconnecting trunks, respectively, and one-half of AUSF funding is to be borne by
7 "Category 2" service providers, i.e., providers of intrastate toll service (or other service providers
8 as permitted under R14-2-1204(B)(3)) on the basis of intrastate toll revenues.¹ Thus, the
9 contribution methodology varies depending on the type of service provider and service.
10 Moreover, the 50-50 allocation of AUSF funding responsibility may bear no relationship to the
11 providers' level of activities in Arizona relative to one another. The Commission should
12 accordingly consider a broader, and more competitively neutral, funding methodology. As a first
13 step, the Commission could follow the FCC's current approach, under which all contributions
14 would be assessed on the basis of retail telecommunications revenues. Further, the FCC is
15 currently considering a change in the federal assessment methodology, under which assessments
16 would be based on telephone numbers and connections (as opposed to retail revenues, as is
17 currently the case). Both Qwest (Ex. A, at 11) and Verizon (at 6) suggest that the Commission
18 follow suit if the FCC adopts such a change, so as to ensure consistency between state and
19 federal funding and to provide for simpler administration. AT&T agrees that the Commission
20 should adopt such a revision to the assessment methodology if the FCC makes that revision at
21 the federal level.

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23 ¹ See R14-2-1204.

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CONCLUSION

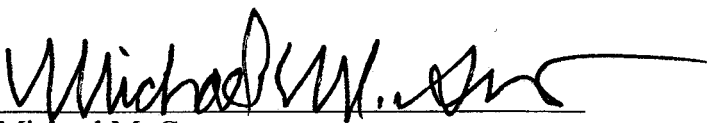
For the reasons set forth above, AT&T respectfully recommends that the Commission (i) give the parties 60 days to discuss their positions amongst each other and attempt to reach further consensus, (ii) provide for two workshops to be held in April 2008 and (iii) schedule a Procedural Conference for May 2008, at which Staff and the parties would discuss the results of their discussions and workshops and present recommendations to the Administrative Law Judge on the most appropriate and efficient way to proceed.

RESPECTFULLY SUBMITTED this 4th day of February, 2008.

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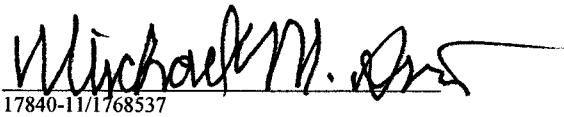
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1 **Original and 15 copies** filed this
2 4th day of February, 2008, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 **Copies** of the foregoing mailed or
8 e-mailed to all parties who have filed
9 requests to remain on the service list:

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